



**LODI CITY COUNCIL**  
**Carnegie Forum**  
**305 West Pine Street, Lodi**

**"SHIRTSLEEVE" SESSION**

**Date: March 25, 2008**

**Time: 7:00 a.m.**

For information regarding this Agenda please contact:

**Randi Johl**

**City Clerk**

**Telephone: (209) 333-6702**

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**Informal Informational Meeting**

- A. Roll Call by City Clerk**
- B. Topic(s)**
  - B-1 Infrastructure Replacement Account (PW)
- C. Comments by Public on Non-Agenda Items**
- D. Adjournment**

Pursuant to Section 54954.2(a) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

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Randi Johl  
City Clerk



# CITY OF LODI COUNCIL COMMUNICATION

**AGENDA TITLE:** Infrastructure Replacement Account

**MEETING DATE:** March 25, 2008 (Shirtsleeve Session)

**PREPARED BY:** Public Works Director

**RECOMMENDED ACTION:**

Receive information on the following:

- Rebalancing operations and capital sub-funds within the water and wastewater utilities
- Placing water/wastewater rate revenue into operations sub-fund and transferring to capital as needed through the budget process
- Simplifying billing by combining the separate "infrastructure charge" with the base charge but keeping the water PCE/TCE charge separate
- Updating revenue/rate models in FY 08/09

**BACKGROUND INFORMATION:**

In 2001, the City Council approved significant water and wastewater rate increases. At Council's direction, the increase was itemized separately on customer bills as "replacement program".

As City staff implemented this specific direction and attempted to implement our interpretation of the Council's intentions, this revenue has been tracked separately and placed into the capital "sub-funds" within the respective utility enterprise funds. However, that rate increase was not solely intended to be for capital replacement. Increased operations costs, building an overall reserve within the enterprises, and meeting upcoming regulatory requirements were also part of the analysis that resulted in the rate increases, as described in the attached presentation.

Normally, staff would make these adjustments within the enterprise funds without specific Council direction. However, given that there is an impression that all the "infrastructure replacement" revenue is for one specific purpose, staff is presenting this for public information and will return to Council for further direction.

**FISCAL IMPACT:**

No direct impacts, however, implementing the recommendations will make future rate and revenue analysis and presentation more efficient.

**FUNDING AVAILABLE:**

Not applicable.

\_\_\_\_\_  
Richard C. Prima, Jr.  
Public Works Director

RCP/PJF/pmf  
Attachment

**APPROVED:** \_\_\_\_\_

Blair King, City Manager

# Water Services Infrastructure Replacement Charges & Fund Balance

City Council  
Shirtsleeve Session  
March 25, 2008

# Outline

- Water Services Funds (and sub-funds)
- The “Problem”
- The Cause
- The Fix
- Rate History
- Rate Issues
- Recommendations

# Water Services Funds

- Water and Wastewater enterprise funds both have “sub-funds” for Operations, Capital and Development Impact Mitigation Fees (IMF)
- State law requires separate fund for IMF  
(not discussed further in this presentation)
- Standard practice provides separation of Operation and Capital funds

# Historical Background

- All revenue from rates went to Operating fund
- Transfers to Capital fund would be made periodically as needed
- Council directed in 2001 that the rate increase be identified specifically on the bill for infrastructure replacement (not included in Resolution)
- Following 2002 rate increase, the “infrastructure” revenue was placed directly in the capital sub-fund

# The Problem

- Both Funds have a large cash imbalance between operating (negative) and capital (positive)
  - Water Operating: (\$8.5 million)
  - Water Capital: \$7.5 million
  - Sewer Operating: (\$8.8 million)
  - Sewer Capital: \$11.3 million

# The Cause

- Not all of the 2002 rate increase was for capital expenses
- Motion to approve rate increase included identification on bill, but was not discussed earlier
- Operating costs have increased greater than anticipated



# The Fix

- Make transfers to rebalance operations and capital sub-funds within the water and wastewater utilities
- Place all rate revenue into operation sub-fund, transfer to capital as needed through budget process
- Simplify billing – combine “infrastructure charge” with base charge (keep water PCE/TCE charge separate)

# Rate Issues

- Historically, the City went many years between rate increases
- Rate adjustments were not planned very far in advance
- Policies regarding internal charges (cost of services) and in-lieu transfer to the General Fund have varied considerably
- Reserve targets were not established

# Water Services Rate Increase History

Water	
<u>Date</u>	<u>% Chg.</u>
Jul-07	13%
Jul-06	13%
Jan-06	13%
May-05	2.2%
May-04	35%
Jul-02	25%
Jan-02	25%
Jun-95	18%
Aug-91	5%
Mar-89	69%
Jun-76	50%
Jun-65	100%
Aug-55	

Wastewater	
<u>Date</u>	<u>% Chg.</u>
Jul-07	3.4%
Jul-06	2.0%
Jul-05	25%
May-04	25%
Jul-02	35%
Jan-02	35%
Feb-91	15%
Jan-90	15%
Oct-88	15%
Oct-87	15%
Oct-86	15%
Jan-78	

# Progress!

- Transfers to General Fund now cost of service formula based
- Revenue models developed periodically to help establish rate adjustments
- Annual adjustments based on CPI
- Policy to establish reserves

# 2001 Rate Issues

- Reserves
- Infrastructure Replacement
- Regulatory & Other Requirements
- Operations & Maintenance Cost
- Range of Revenue Requirements Discussed

# Reserves

- Exhibit from 2001
- Reserves too low
- Financing issues

## Water/Wastewater Reserves

- Present City Policy – Minimum of 15% of annual operating expenses.
- AWWA – 5% annual surplus revenue over total expenses; six to twelve months of O&M expenses, plus one year's debt service.
- City of Tracy – 25% of annual operating plus one year's debt service.
- City of Stockton – 25% of annual operating plus capital reserve (unspecified amount)
- State Of California (Loan Fund Revenue Guidelines – 10% to 50% of annual operating plus capital reserve
- Consultant (Washington State) – 10% of operating, plus \$250,000 contingency reserve (emergency repairs), plus one year's capital costs.
- Recommended Reserve for Lodi Water/Wastewater Utilities:
  - 15% of annual operating expenses, plus
  - \$300,000 capital reserve in Water
  - \$600,000 capital reserve in Wastewater

# Infrastructure Replacement

- Exhibit from 2001
- Focus on some pipes
- Sewer trunk not included
- PCE/TCE issues

## Infrastructure Replacement

- Major City Objective: Provide Resources to Maintain City 's Infrastructure.
- Critical Components of Water/Wastewater System Being Maintained
- Replacement of Underground Facilities – Water Distribution Mains & Services and Wastewater Collection Pipes Is Lagging
  - Replacements Being Done In Conjunction With Other Projects
  - Need to Move Into a Pro-Active Replacement Program Has Been Recognized
  - Staffing Now In Place to Begin Program
  - New Budget (2 – Year) Includes \$300,000 (W) & \$200,000 (WW) per year
    - ✓ Will replace about 2,400 Ft. of pipe
    - ✓ W/WW systems have about 2 Million feet of pipe
    - ✓ 2,400 Ft. represents 0.12% of the system's total footage
    - ✓ At that rate of replacement, a pipe installed today would have to last 824 years before it gets replaced
  - Replacement on a 100-year cycle would require funding of \$2.2 Million per year for water & \$1.8 Million for sewer
  - Replacement on a 75-year cycle would require funding of \$3.0 Million for water and \$2.4 Million for sewer

# Regulatory & Other Requirements

- Exhibit from 2001
- Wastewater treatment costs
  - higher than anticipated
  - \$400 k Fed. grant used for pipes
- Water costs (PCE/TCE)
  - wildly higher than anticipated
  - getting under control now
- Water meter mandate not considered

## Regulatory and Other Requirements

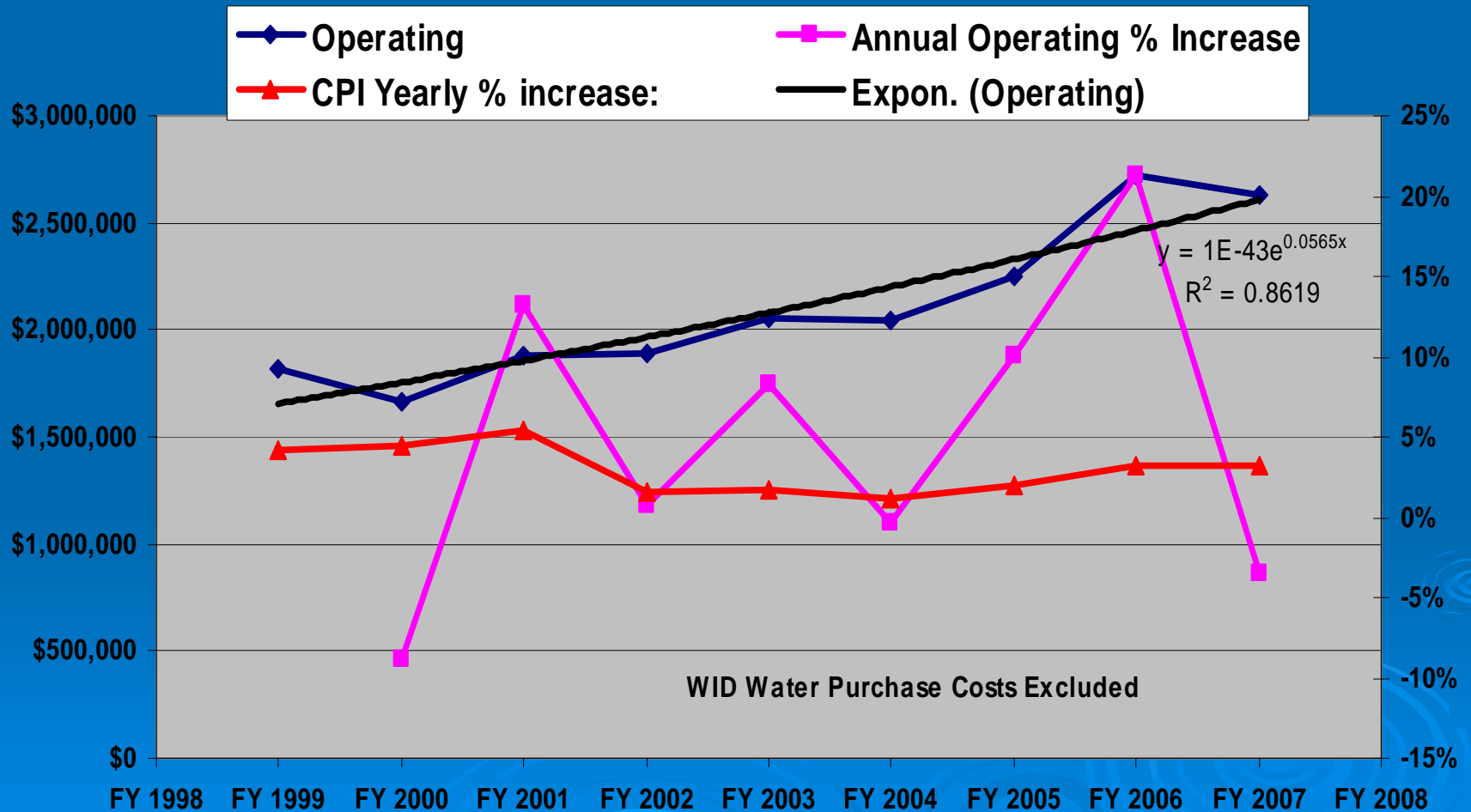
- Wastewater
  - Meet New Discharge Permit Requirements
    - ✓ Estimates in \$34 Million Range
    - ✓ Other Agencies Seeing Additional Requirements & Cost
    - ✓ Some Portion of Cost Will Be Allocated To New Development
    - ✓ Possible Offsets – Grants & Project Partners
  - Energy Cost ? ? ?
  - General Cost of Living/Operations
- Water
  - Regulatory Requirements
    - ✓ Contaminants – DBCP, PCE/TCE, others
    - ✓ Naturally Occurring Elements – Radon, Arsenic
    - ✓ Fluoridation & Chlorination
    - ✓ Cost Impact Will Depend on Levels Established & Grant Funding
  - Provide Additional Supply
    - ✓ Wide Range of Potential Costs -
      - \$35+ M. for Surface Water Transport & Treatment (If Available)
      - \$2 to \$4 M. for Prelim. Engineering & Permits for County Project
    - ✓ Conservation
    - ✓ Possible Offsets – Grants & Project Partners
  - Energy Cost ? ? ?
  - General Cost of Living/Operations



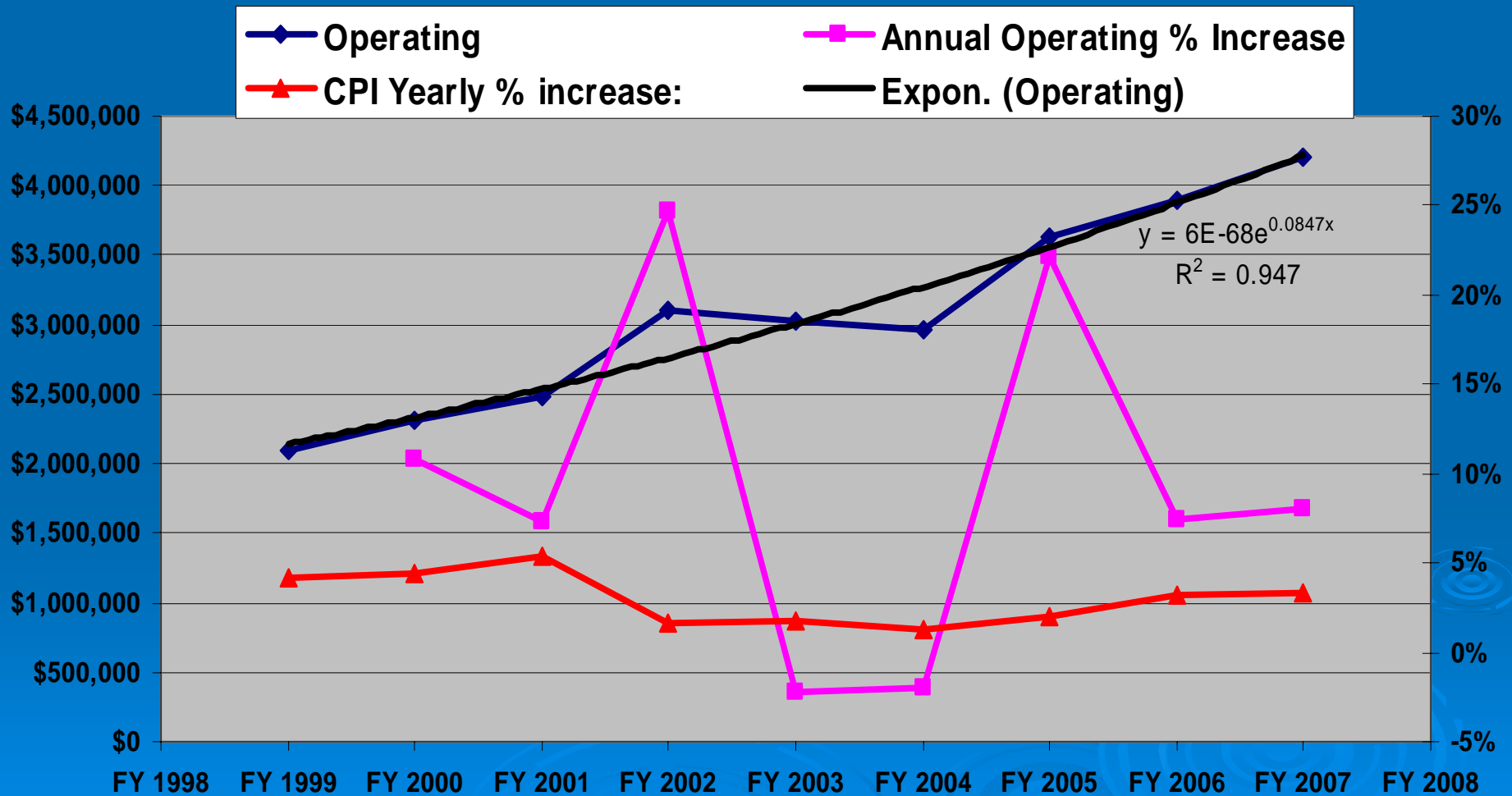
# Operations & Maintenance Costs

- Vary from year to year
- Have exceeded inflation ( + 3%/year)
  - Water expenses: + 6%/year
  - Wastewater expenses: + 8%/year

## Water - Operating Expenses



## Wastewater Operating Expenses



# Range of Revenue Requirements

- Exhibit from 2001
- Actual revenue lower:
  - Water – avg. \$2.0 M/yr
  - Wastewater – avg. \$2.3 M/yr

## Increased Revenue Requirements

\$ Per Year

### *Water Utility*

<u>Component</u>	<u>Recommended Program</u>	<u>Potential Program</u>
Sustain Fund Balance w/Reserve	\$45,000	\$ 45,000
Replace Infrastructure	\$2,200,000	\$2,200,000
Alternate Water Supplies	<u>\$ 20,000</u>	<u>\$2,000,000</u>
Total:	\$2,265,000	\$4,245,000

### *Wastewater Utility*

Sustain Fund Balance w/Reserve	\$ 245,000	\$ 245,000
Replace Infrastructure	\$ 2,000,000	\$ 2,000,000
Wastewater Treatment Upgrades	<u>\$ 370,000</u>	<u>\$ 2,380,000</u>
Total:	<u>\$ 2,615,000</u>	<u>\$ 4,625,000</u>
Grand Total:	\$ 4,880,000	\$ 8,870,000

# Recommendations

- Direct City Manager to:
  - Rebalance operations and capital sub-funds within the water and wastewater utilities
  - Place all rate revenue into operations sub-fund, transfer to capital as needed through budget process
  - Simplify billing – combine “infrastructure charge” with base charge (keep water PCE/TCE charge separate)
  - Update revenue/rate models in FY 08/09

OR

- Leave replacement program as is and consider rate increases to meet operational needs

# Supplemental Information

- Minutes from 2001 Council meeting approving rates
- Water Rate Resolution 2001-231
- Wastewater Rate Resolution 2001-232

## Minutes from Oct. 3, 2001 City Council meeting

### MOTION (#1) / VOTE:

The City Council, on motion of Council Member Hitchcock, Howard second, adopted Resolution No. 2001-231, pursuant to Section 13.08.010 of the Lodi Municipal Code, providing for and establishing rates to be charged for water service, and further directed staff to:

- add a line item on the utility bills identifying the water cost increase with a description specifying its purpose for infrastructure replacement;
- prepare a long-range, ten-year financial model spreadsheet identifying water, sewer, and electric expenses, including the dollar amount for the utility user tax over this period; and
- at the time of settlement related to the PCE/TCE issue, repay the water fund for the previous \$6 million expenditure, using the balance remaining after priority takes.

The above motion carried by the following vote:

Ayes: Council Members – Hitchcock, Howard, Pennino and Mayor Nakanishi

Noes: Council Members – None

Absent: Council Members – Land

### MOTION (#2) / VOTE:

The City Council, on motion of Council Member Howard, Hitchcock second, adopted Resolution No. 2001-232, pursuant to Section 13.12.240 of the Lodi Municipal Code, providing for and establishing rates to be charged for sewer services, and further directed staff to:

- add a line item on the utility bills identifying the wastewater cost increase with a description specifying its purpose for infrastructure replacement; and
- prepare a long-range, ten-year financial model spreadsheet identifying water, sewer, and electric expenses, including the dollar amount for the utility user tax over this period.

The above motion carried by the following vote:

Ayes: Council Members – Hitchcock, Howard, Pennino and Mayor Nakanishi

Noes: Council Members – None

Absent: Council Members – Land

RESOLUTION NO. 2001-231

A RESOLUTION OF THE LODI CITY COUNCIL  
ADOPTED PURSUANT TO SECTION 13.08.010 OF  
THE LODI MUNICIPAL CODE, PROVIDING FOR AND  
ESTABLISHING RATES TO BE CHARGED FOR  
WATER SERVICE

WHEREAS, pursuant to the requirements of Government Code Section 54354.5, a Public Hearing was held on October 3, 2001, to consider adoption of a Resolution setting and establishing an amended fee schedule for water service rates.

NOW, THEREFORE, BE IT RESOLVED, by the Lodi City Council:

Section 1: The schedule of water service rates for the City of Lodi shall be as shown as follows:

<u>Water Utility</u>	<u>Present Rate</u>	<u>January 2002</u>	<u>July 2002</u>
<b>Residential Flat Rate (per month):</b>			
Single Family Unit (one bedroom)	\$ 8.65	\$ 10.81	\$13.51
(two bedrooms)	\$10.38	\$ 12.98	\$16.22
(three bedrooms)	\$12.45	\$ 15.56	\$19.45
(four bedrooms)	\$14.95	\$ 18.69	\$23.36
(five bedrooms)	\$17.94	\$ 22.43	\$28.04
(six bedrooms)	\$21.53	\$ 26.91	\$33.64
(seven bedrooms)	\$25.82	\$ 32.28	\$40.35
Multiple Family Unit (one bedroom)	\$ 7.42	\$ 9.28	\$11.60
(two bedrooms)	\$ 8.90	\$ 11.13	\$13.91
(three bedrooms)	\$10.68	\$ 13.35	\$16.69
		+ 20% for ea. add'l. bedroom	
Commercial/Industrial Flat Rate	varies	add 25%	add 25%
Existing accounts only. New accounts are metered.			
Metered Rate	\$ 0.296	per 100 cu. ft. (approx. 40¢ per 1,000 gal.)	
		\$ 0.397	\$0.524
plus monthly base charge:	\$11.43	¾" meter	No change
	\$17.14	1" meter	No change
	\$22.85	1½" meter	No change
	\$28.58	2" meter	No change
	\$40.00	3" meter	No change
	\$51.43	4" meter	No change
	\$74.29	6" meter	No change
	\$97.16	8" meter	No change
Construction Water Charges:	\$ 0.296	per 100 cu. ft. (approx. 40¢ per 1,000 gal.)	
		\$ 0.397	\$ 0.524

## Water Rate Resolution from Oct. 3, 2001 City Council meeting

Section 2: The rates established by this Resolution shall be effective January 2002 and July 2002, or applied to the next full billing cycle following the effective date.

Section 3: All resolutions and parts of Resolutions in conflict herewith are repealed insofar as such conflict may exist.

Dated: October 3, 2001

I hereby certify that Resolution No. 2001-231 was passed and adopted by the City Council of the City of Lodi in a regular meeting held October 3, 2001, by the following vote:

AYES: COUNCIL MEMBERS – Hitchcock, Howard, Pennino and Mayor Nakanishi

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – Land

ABSTAIN: COUNCIL MEMBERS – None

  
SUSAN J. BLACKSTON  
City Clerk



RESOLUTION NO. 2001-232

A RESOLUTION OF THE LODI CITY COUNCIL  
ADOPTED PURSUANT TO SECTION 13.12.240 OF  
THE LODI MUNICIPAL CODE, PROVIDING FOR AND  
ESTABLISHING RATES TO BE CHARGED FOR  
SEWER SERVICE

WHEREAS, pursuant to the requirements of Government Code Section 54354.5, a Public Hearing was held on October 3, 2001, to consider adoption of a Resolution setting and establishing an amended fee schedule for sewer service rates.

NOW, THEREFORE, BE IT RESOLVED, by the Lodi City Council:

Section 1: The schedule of sewer service rates for the City of Lodi shall be as shown as follows:

Wastewater Utility	Present Rate	January 2002	July 2002
Disposal to Domestic System:			
Residential (per month) 1 Bedroom	\$ 5.34	\$ 7.21	\$ 9.73
2 Bedrooms (basis for 1 Sewage Service Unit) (SSU)	\$ 7.12	\$ 9.61	\$12.97
3 Bedrooms	\$ 8.90	\$12.02	\$16.23
4 Bedrooms	\$10.68	\$14.42	\$19.47
5 Bedrooms	\$12.46	\$16.82	\$22.71
6 Bedrooms	\$14.24	\$19.22	\$25.95
7 Bedrooms	\$16.02	\$21.63	\$29.20
Moderate Strength (annual per SSU) (Most commercial & industrial unless "high strength")	\$85.42	\$115.32	\$155.68
High strength user:			
Flow (per MG, annual basis)	\$ 411.02	\$554.88	\$749.09
BOD (per 1,000 lbs., annual basis)	\$ 201.14	\$271.54	\$366.58
SS (per 1,000 lbs., annual basis)	\$ 164.42	\$221.97	\$299.66
Grease Interceptor and Septic Holding Tank Waste within City Limits (per 1,000 gal.)	\$62.96	\$85.00	\$114.75
Septic (only) Holding Tank Waste Outside City Limits (per 1,000 gal.)	\$ 133.67	\$180.45	\$243.61
Disposal to Storm Drain System (per MG)	\$66.13	\$89.28	\$120.53

## Wastewater Rate Resolution from Oct. 3, 2001 City Council meeting

Section 2: The rates established by this Resolution shall be effective January 2002 and July 2002, or applied to the next full billing cycle following the effective date.

Section 3: All resolutions and parts of Resolutions in conflict herewith are repealed insofar as such conflict may exist.

Dated: October 3, 2001

I hereby certify that Resolution No. 2001-232 was passed and adopted by the City Council of the City of Lodi in a regular meeting held October 3, 2001, by the following vote:

AYES: COUNCIL MEMBERS – Hitchcock, Howard, Pennino and Mayor Nakanishi

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – Land

ABSTAIN: COUNCIL MEMBERS – None

  
SUSAN J. BLACKSTON  
City Clerk